



PLANNING, POWER AND WELFARE

A Discussion and Other Essays

By
DAYA KRISHNA

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INTRODUCTION

This volume of Daya Krishna's papers on **PLANNING, POWER AND WELFARE** is the second in the series of Basic Books which came into being with the publication of Mr. Jayaprakash Narayan's **TOWARDS A NEW SOCIETY**.

In this series we propose to publish books dealing with some of the basic issues thrown up by emergent Asia—issues like those of planning, of democracy or of cultural freedom. Mr. Jayaprakash Narayan raised some issues in connection with his conception of a new and non-violent transformation of society. Daya Krishna discusses planning in relation to welfare and power.

In 1959 we hope to publish four more titles dealing with certain problems of liberty and representative government in Asia, with the contemporary transformation of Indonesia and with the tradition and transition of Japanese culture.

In the present volume Daya Krishna questions some of the current assumptions which underlie planning in Asian countries and asks if these assumptions do not, in effect, distort the original purpose with which planning was undertaken. Daya Krishna's thesis is challenged by two eminent economists of Asia, namely Prof. Vu Quoc Thuc of the University of Saigon and Dr. Nurul Islam of the University of Dacca. Daya Krishna, in a rejoinder, replies to their objections.

Although Daya Krishna confidently pricks some of the illusions about planning fostered by many eminent economists, he is not a professional economist. (That may perhaps be the reason why he is able to approach the subject from a fresh angle). Daya Krishna is a philosopher, wrote his doctorate thesis on The Nature of Philosophy and now teaches in the Department of Philosophy of the Sagar University in Madhya Pradesh, India. The sweep of his intellectual interests, however, goes beyond the restricted scope of philosophy and he frequently contributes articles to international journals of ideas on social and economic subjects.

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A Discussion

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attaining the same level in that period if the U.S.A. continued to rest under a capitalist regime".¹

The Soviet Experience

The failure of the Soviet Union to come anywhere near the consumption levels of the U.S.A. even by the year 1955 will perhaps hardly deter the underdeveloped countries from indulging in the same utopian aspirations once more. What immensely facilitates this is the success of the Soviet propaganda in making the semi-educated of these countries believe that the utopian aspirations have already been translated into actual fact. Thus, unless there is a widespread appreciation of the failure of the Soviet experiment to deliver goods in terms of consumer welfare, there can be little hope for an alternative search for ways and means, both at the theoretical and the practical levels, through which an underdeveloped country can raise appreciably its welfare levels. Otherwise, we can only expect a blind imitation on the part of these countries of ways that have already proved a failure in the case of a country that tried them on the largest and the most consistent scale.

The Soviet experiment, if closely analysed, also provides a salutary check to the common assumption that the easiest and the quickest way of raising welfare levels is to embark

¹ la possibilite' d' "achever dans l'ensemble la periode de transition en 1935-36, laissant loin derriere nous le niveau actuel de production des Etats-Unis, et probablement meme le niveau qui sera atterint par eux a' cette epoque s'ils continuent a rester sous la regime capitaliste" L. Sabasowitch : l' *U.R.S.S. dans dix ans* ed. ir. 1930 par B. E. I. P. I. No. 109. Quoted from Bertrand de Jouvenel's paper entitled 'Identite' d' essence des Economics Capitalistes et Sovietiques" p. 3.

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on a successful programme of heavy industrialisation. Almost close to the top in the production of heavy capital-goods industries, its *per capita* consumption of consumer goods is unbelievably low, when compared with the industrialised and even some of the non-industrialised countries of the West. As W. S. Woytinsky and E. S. Woytinsky write : "The duality of the Soviet economy is clearly revealed by the ranking of the U.S.S.R. among other nations : close to the bottom in *per capita* consumption and close to the top in capacity of iron and steel mills".²

In fact, one of the clearest indications of how far the Soviet Union fell short of the desirable consumption-standards, was given by the standards recently formulated by Strumilin and Molchanova after Khrushchev had said that it was ".....necessary to set ourselves the task of achieving a level of food consumption which would be based on a scientific diet necessary for the harmonious all-round development of a healthy human being".³ Nowhere, except in the case of potatoes and vegetables, the current *per capita* consumption prevailing in the Soviet Union was anywhere near the minimum standards formulated by either Strumilin or Molchanova. Even in such basic category of consumer goods as black and white bread, woollen clothes, footwear and living space, the percentage relationship between consumption and the Strumilin standard was 64.5, 12.8, 42.0 and 27.0 respectively.⁴

² World Population and Production. p. lxvi.

³ Pravda, Sept. 1953, quoted in the Bulletin of the Institute for the Study of the History and Culture of the U.S.S.R., Munich, Germany, July, 1955, p. 23.

⁴ Ibid. The New Course and Consumer Goods Production, A. Poplujko. p. 24.

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The situation is no better on Molchanova's standard. And this, when "the standards proposed by Soviete conomists and physiologists are equivalent only to average achievements in the West."⁵

Such an amazing deficiency in the *per capita* consumption of the basic necessities of life in a country which has consciously pursued material welfare for the last 40 years of its existence, requires the utmost consideration of those who want an increase in thewelf are-levels of the underdeveloped countries. What is, perhaps, still more interesting is the fact that such staggeringly low levels of consumption have not stood in the way of its becoming almost the foremost political and military power today. Or, is this very fact the key to the understanding of the Soviet anomaly? Power and Welfare—the covert and the overt ends of Planning are here clearly separated and it is distinctly revealed that Planning may be geared to the ends of power rather than welfare, though it would hardly be admitted by the planners themselves.

Ambiguous

The "economic development" which the underdeveloped countries so anxiously seek is, unfortunately, so ambiguous a term as hardly to differentiate between welfare and power. To the estimates of National Income, it does not matter what is produced, but only the fact that something is produced. The specific 'what' is irrelevant for the very simple reason that economic computation does not take into account the difference in function that different products may serve. This follows from the

⁵ Ibid. p. 26.

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concept of "economic value" which guarantees that anything that functions within the exchange-market has "value", or from the wider notion that anything which is produced must be in response to some need that it seeks to fulfil and, thus, has 'utility' or 'value'.

This may not matter a great deal for the analytic structure of economic thought, but it certainly introduces a fundamental confusion in any serious consideration of the problems relating to 'economic development' in general. When most of the people, including economists, talk of 'economic development', they obviously wish to talk about the development in *per capita* consumption of such things as bread, vegetables, meat, fish, milk, eggs, sugar, salt, fruits, fats, clothes, footwear, soap, living space and other such sorts of things. Yet, when they start measuring 'economic development', they generally talk about steel and coal and oil and other such sorts of things, without caring to ascertain whether these have resulted in a corresponding increase in the production of those goods which men really want to consume. To take but one example, an increase in the number of tractors would be taken as a sign of economic development by every economist worth the name, *even if it be a fact that the per capita consumption of food-grains has remained the same or even gone down*. In the Soviet Union, for example, an increase in the production of tractors at great cost to the economy is taken as a sign of 'economic development' by every economist even if there is a decrease in the average monthly consumption of bread and cereals from the times when there were hardly any tractors to talk about. According to Strumilin, the average monthly consumption of bread

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and cereals in 1935 was 21.8 kilograms, while "according to Lenin himself, in the Tsarist Russia of 1892, even the lowest wage-earning agricultural labourer consumed, in the province of Saratov, 419.3 kilograms of cereals annually, which worked out to 36 kilograms monthly per consumer".⁶ And this when Russia had acquired a lot of tractors by 1935 which, according to common consent, is one of the surest signs of economic development in any country.

We are not unaware that a decrease in the *per capita* consumption of food-grains may, in certain circumstances, be a sign of increasing consumer-welfare. Such a situation obtains when a decrease in the consumption of food-grains is associated with an increase in the consumption of protective foods such as meat, fish, milk, eggs, and fruits—a situation that obtains in many countries of Western Europe, U.S.A. and certain other countries as well. But, surely, such a situation does not obtain in the Soviet Union where the consumption of such protective foods is negligible in the national *per capita* intake of such things. Also, there can certainly be situations where an increase in the number of tractors is a sign of 'welfare development' even when the *per capita* consumption of food-grains remains the same or declines. This can only be in a situation where the labour force saved by the use of

⁶ Communism and Peasantry, Ram Swarup. p. 73. The author has made a pertinent suggestion that many things which the economists compute on the credit side as income should more justifiably be treated as costs and, thus, deducted from the total 'National Income' accounts. The classical case that he treats in this connection is that of tractors, but it can be applied to other items as well.

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tractors is utilised to produce some other consumer goods in the economy. If, however, the released labour force is merely engaged in producing tractors or other such things as tractors, then no increase in consumer-welfare can be said to have happened. Further, the *per capita* consumption of the basic necessities must be either already pretty high or, at least, reasonable in order that their depressing or freezing at a static level may have any meaning in terms of 'consumer-welfare'.

Be that as it may, there can be little doubt that the term 'economic development' does not sufficiently distinguish between, say, 'welfare-development' and 'development' of other kinds. It is necessary to make this distinction, both at the theoretical and the applied level, in order that planning in underdeveloped countries may know which direction to take. With a clear realisation of the different ends that 'economic development' can pursue, there would result different corresponding patterns seeking alternative social and economic ends.

From Welfare to Power

The 'economic development' in the underdeveloped countries, it is well known, can hardly be achieved except under state auspices, at least, in its early stages. The lack of effective demand, paucity of capital, deficient enterprise and the absence of 'over-head' facilities make it difficult for the process of 'economic development' to get going. But the conditions which make it necessary for the process of 'economic development' to be undertaken under state auspices, open also the possibility that the 'development' may be directed to ends other than those

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of 'consumer welfare'. The primary value of every state is 'power', both *vis-a-vis* the internal groups within itself and other states outside it. It is therefore, but natural for the process of economic development to be deflected to the ends of 'power' rather than 'welfare' when pursued under its sole auspices.

Such a deflection is facilitated by the fact that 'economic development' is treated as a homogeneous category, by the economist, the politician and the public alike. Further, the process of economic development in an underdeveloped economy being essentially an 'imitation' of that which happened 'immanently' in the early capitalist countries, it is thought that the 'welfare-standards' of the West can be achieved by heavy industrialisation which is a prominent characteristic of some of the most advanced countries of the Western World. The start is, therefore, made with an investment in heavy capital-goods industries which, it is supposed, would ultimately result in an increase in consumer-welfare all round. Thus, whether we do achieve 'welfare-development' or not, the economic development is there for all economists to talk about. The state, in its turn, can be proud of big steel, coal, oil and cement factories that can be shown to every visitor and, in any case, it feels its 'power' as measured by the speed of its bombers and the diameter of its guns.

Industrialisation and Welfare-levels

It is necessary to be aware of the ambiguity that leads to such situations and scrutinise, in the closest possible way, the arguments that make such a direction of planning plausible.

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The correlation between heavy industrialisation and high standards of living naturally suggests that the one is a necessary precondition of the other. But the correlation could hardly be considered decisive, for there certainly are countries which are not heavily industrialised and yet enjoy a high standard of living and others which are heavily industrialised and yet do not enjoy those levels of 'consumer-welfare'. For example, countries like Argentina, Uruguay, Ireland and Finland which are not industrialised at all, enjoy higher *per capita* income than such industrialised countries as U.S.S.R., Japan, Chile or Italy. Their *per capita* income is equal to such highly industrialised countries as Czechoslovakia, Austria or France. Such relatively little industrialised countries as Denmark, New Zealand or Norway enjoy the same or even higher *per capita* income as the United Kingdom, Switzerland, the Benelux countries or Western Germany.⁷

If, instead of *per capita* income in U.S. dollars as calculated by W.S. Woytinsky and E.S. Woytinsky, we look at the calculation of real income per head of population, by Colin Clark, we come to the same conclusion.⁸ Colin Clark's new calculation is done in terms of "oriental units" which, while doing injustice to the advanced indus-

⁷ Most of these comparisons are taken from World Population and Production, W.S. Woytinsky and E.S. Woytinsky, p. 434.

⁸ The Poverty of Nations. Encounter, March 1954. p. 33. There are slight differences in the ranking of some countries on the two scales, but it hardly makes any over-all difference to the point that we are making. If anything, Colin Clark's ranking in terms of real income per head makes our point even more telling.

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trialist countries,⁹ is of greater interest to the under-developed economies, as it employs a unit of comparison which is more meaningful in the context of their own patterns of living. Countries such as Cuba, Panama, Puerto Rico and Samoa are found within the highest income-bracket in this calculation. So are countries which we referred to previously on Woytinsky's calculation—Finland, Ireland, Argentina, Uruguay, Denmark and Norway. But beside the highest 'real-income' group in which all these countries lie, there is a further eight-fold division in which different countries are hierarchically placed according to the *per capita* incomes they enjoy. A remarkable fact about this hierarchy is that it is hardly related to the relative levels of manufacturing and industrialisation attained in these countries. If a country like Syria, for example, enjoys a far higher level of *per capita* real income than Iran or Saudi Arabia, it certainly is not because it has attained a relatively higher level of industrialisation than those countries.

The examples can be multiplied to one's heart's content. If the economists have failed to emphasise these facts, it could certainly not have been because they were unaware of them. Rather, it was perhaps because they did not consider them of any importance in reflecting upon problems of economic development. The term 'economic development' has been vaguely associated in

⁹ He himself has admitted that "the higher income countries are all simply placed in one group of 'over 1000' Oriental Units per head. The wealthiest countries, however, may now have an average real income per head of five, six, or seven times this limit." Ibid. p. 32.

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the mind of the economist with industrialisation and the rise in real *per capita* income of the people. He has, however, never felt the necessity of separating the two and considering each on its own merit. In fact, it is the phenomenon of industrialisation that has held his attention since the time of Adam Smith. If today, for example, the U.S.A. engages the attention of the economists, it is not because it enjoys the highest real *per capita* income in the world but because it is the most industrialised country in the world. Otherwise, it should have been in the forefront of economic attention even in Smith's time, for "even in Adam Smith's time (it) probably had the highest real income per head in the world."¹⁰

Industrialisation : Creative and Imitative

The achievement of higher welfare-levels should, therefore, be distinguished from the achievement of higher levels of industrialisation, even if it be a fact that in some cases the two are intimately related to each other. The situation, however, gets further complicated by the fact that the term 'industrialisation' is itself an ambiguous term. It may mean either the development of what are called the "heavy capital goods industries" or what have been called the "manufacturing" or the "consumer-goods industries". The development in either of these directions is called "industrialisation". Rather the term 'industrialisation' is coming to be confined more to an increase in the former direction than the latter.

The paucity of 'investment-funds' in an under-developed economy makes it imperative to decide as to the

¹⁰ Op. Cit. Colin Clark, p. 32.

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direction in which priority-investments are to take place. Now, just as it is the usually accepted presupposition of economists in general that the only way of 'economic development' of a country is to industrialise it, so the usually accepted presupposition about the type of industrialisation is that it should be of the 'heavy capital-goods industries' type. Such an investment-decision is defended on many grounds, only a few of which can be called 'economic' in character.

The essential character of the industrialisation of a backward economy is that it has to 'repeat' or 'imitate' what had to be creatively achieved in the countries of the West, where early industrialisation took place. In the few countries of Western Europe where the process of industrialisation originated due to a multiplicity of factors in the late eighteenth and the early nineteenth centuries, there was an immanent development such that the investment in capital-goods industries was made in response to a pre-existent demand generated through the development of consumer-goods industries. There was, thus, a sort of integrated development which ensured that the development of capital-goods industries was geared to the ultimate satisfaction of consumer-wants in an economy. Of course, there was entrepreneurial innovation, but it had imaginatively to anticipate the potential needs inherent in the situation at the risk of great loss if the anticipation proved incorrect.

The 'imitative' development of an under-developed economy is, however, supposed to start at the other end. The limited savings available for investment are required to be invested first in the development of heavy capital-

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goods industries in the fond belief that it would ensure a rapid rate of economic development for the country. As the term "economic development" is fairly ambiguous, it becomes easy to assume that what is being ensured is the rapid development of consumer-welfare in a country. Thus, under the cover of an ambiguous title, the economist and the politician feel morally justified in recommending a 'temporary sacrifice', a 'tightening of the belts' which the common man in all decency cannot refuse. And if he sees through the game and refuses to 'sacrifice', he can be called a 'saboteur of the Plan' and in his own 'real' interests, forced to do so.

Tugan-Baranowsky's Prophecy—

The possibility that an increasing development of capital-goods industries can be accompanied by a static or declining welfare-level of a people has not been seriously discussed in economic thought. It was perhaps only Tugan-Baranowsky who sought to consider theoretically the possibility that the capitalists might go on providing demand for each other's capital-goods without producing any consumer-goods at all. Something of this fantastic possibility seems to have come true, not under capitalism as Tugan-Baranowsky seemed to have supposed, but under Socialism where perhaps he could not even have dreamt about it. The Soviet Union, where the first Socialist revolution is supposed to have taken place, is the classic example of a country where such a grim realisation has already happened. The tremendous advances that have taken place in the production of heavy capital-goods industries have not only not been matched by a proportionate increase in the *per capita* consumption of basic consumer-

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goods but rather by an actual decline in their consumption level. For example, "the total decline in *per capita* income of the rank-and-file peasants in the decade 1928-38 was equivalent to about 20 percent."¹¹ After the war, the production of consumer-goods has, with difficulty, been able to reach the pre-war levels, while there has already been an increase in the population by about 12 millions. During this very time, the production of steel has phenomenally increased from about 5 million tons in 1929 to 41 millions in 1954. The war-years might reasonably be considered to have affected the production of consumer-goods in an adverse manner, while doing just the reverse for the production of steel or other such war-goods industries. But, why should the story have been the same in the peace-years before 1939-45 and in the years after it? If the danger of a possible war be given as the reason it would apply equally to all countries, whether capitalist or communist. But there are hardly any capitalistic countries, where in peace-times an increase in the production of heavy capital-goods industries has been accompanied by a decline in the *per capita* consumption of the basic necessities and comforts already enjoyed by the people.

—Realised under Socialism

The eightfold increase in the production of steel, for example, is considered an unparalleled performance in the history of the economic development of any country. And this is considered a sufficient reason by almost all economists for the depression in the level of consumer-welfare

¹¹ Naum Jasny: *The Socialised Agriculture of the U.S.S.R.* p. 75, quoted in *Communism and Peasantry*, p. 78

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enjoyed by the people of that country. But the production of steel rose from 5.3 million tons in 1896 to 42.7 million tons in 1916 in the United States¹² without, in any way, involving a depression in the standards of living of that country. In fact, the *per capita* income between 1899 and 1919 increased from 205 dollars to 399 dollars, when calculated at current prices, and from 501 dollars to 645 dollars, when adjusted by cost of living index to the 1929 prices.¹³ It should, further, be remembered that this eightfold increase in the production of steel was not only achieved with an increase in the *per capita* real income under the so-called "inefficient" system of private enterprise, but also that it was achieved in only 20 years—i.e. 5 years less than the time Soviet Union took to repeat the same performance. It may be argued that it was the investment of foreign capital that made such a possibility realisable in the United States. But, then, it was the Soviet Union's own theoretical beliefs and practical actions which stood in the way of any such foreign investments in its case. The fact, thus, reflects more on the "economic efficiency" of the theories to which the Soviet Union has been wedded, rather than otherwise.

In fact, the possibility envisaged by Tugan-Baranowski cannot be realised under a capitalist system in peace-time for the very simple reason that any scarcity of consumer goods would raise their prices and, thus, transfer investments, in the normal course, to that sector. Further, the government, being relatively outside the multiple sets of entrepreneurs pulling the economy in different directions

¹² *Historical Statistics of the United States 1789-1945*, Bureau of the Census pp. 185-6. Quoted in Bertrand de Jouvenel *Op. Cit.* p. 4.

¹³ *Op. Cit.* W.S. Woytinsky and E.S. Woytinsky. p. 383.

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and subject in most cases to some sort of consumer-pressure because of periodic free elections through secret ballot, can always interfere in the economy through various measures to ensure that the level of *per capita* consumption, at least of the basic consumer goods, does not decline.

Both these conditions, however, are absent from a system where the government is the sole economic entrepreneur and is not subject to free elections through secret ballot, with parties other than itself competing for the sanction of the so-called "sovereign" people. It becomes, then, possible for the government to go on investing in heavy capital-goods industries even at the cost of a real decline in the consumer-welfare of a people. In fact, such a device seems to be the only possible one, as it permits the utmost extraction of surplus value from the peasantry, which happens to be the largest value-creating class in an under-developed economy, and the use of it as investment for the rapid rate of "economic development" of a country.

Specious Arguments

The requirements of a "rapid rate of economic development" are supposed to entail a relatively larger proportion of investment in heavy capital-goods industries. If such a pattern of investment results in a depression of the real consumption of the people, it is only a "temporary" sacrifice "voluntarily" imposed so that a higher rate of consumer-welfare may be attained in the future. The "sacrifice", however, is seldom temporary, for the amount of steel, coal, oil and the other so-called basic things required goes on always increasing. In fact, the fallacy in the "temporary-sacrifice" argument lies in assuming the target-needs

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to be static rather than dynamic. Russia, for example, even after 40 years of priority-investment in heavy capital-goods industries, still feels the need of sacrificing consumer-welfare for an investment in the same direction. The heavy industries are great consumers of everything and planners who start blindly with a priority-investment in that direction may find themselves in the situation so poignantly described by Bukharin in his confessions. He said, "Psychologically, we, who at one time had advocated socialist industrialism, began to regard with a shrug of the shoulders, with irony, and then with anger at bottom, our huge, gigantically growing factories as monstrous gluttons which consumed everything, deprived the broad masses of articles of consumption....."¹⁴ Of course, he goes on to confess that this was their mistake, but like a good Bolshevik, he could hardly have confessed to anything else. The Soviet statistics, which we have referred to earlier, are however, the best commentary on this statement of Bukharin and provide the completest justification for it.

The other arguments that are given to justify this direction of investment are mainly political in character. They refer to considerations of self-sufficiency, on the one hand, and to defence-requirements, on the other. A few years back, for example, an eminent member of the Panel of Economists advising the Indian Government on the second five-year Plan, gave as one of his reasons for justifying the investment in heavy capital-goods industries, "considerations of national security, chiefly connected with the anti-

¹⁴ Report of court proceedings in the case of the "Anti-Soviet Block of Rightists and Trotskyites." p. 381.

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Indian attitude of Pakistan that has been further strengthened by the network of military alliances into which that country has recently entered."¹⁵

The Argument for Defence

The argument for defence and national security can always be given if there are other nations in the world more powerful than oneself. And even if there be no such nation, the argument can still be given, for is it not our duty to maintain the lead that we have and, in any case, should not our power be greater than that of all others combined, for if they combine, what then? The speciousness of such arguments is evident. They acquire their plausibility from what may be called 'the egocentric predicament'. Otherwise, how can an intelligent man fail to see that the same arguments which justify India's investment in heavy industries would justify Pakistan's case still more? Pakistan, after all, has no basic industries in comparison to India and, thus, should be justified far more in putting an unbearable strain on her people in trying to develop whatever little it can. If, in view of the U.S.—Pakistan pact, the U.S. resources are also counted on Pakistan's side, as the writer wishes us to do, then the question arises as to the meaningful sense in which our targets can make any difference to the other side's resources.¹⁶

¹⁵ V. K. R. V. Rao, *The Hindusthan Times Independence-day Supplement*—Aug. 15, 1955. An economist with different political sympathies might have referred, perhaps more reasonably, to the Russo-Chinese Military pact and the Chinese aggression in Tibet to arrive at the same conclusion.

¹⁶ See the author's article "Investment Priorities and Planning". *The Eastern Economist*, Sept. 23, 1955, p. 484.

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The only thing creditable about the defence and security argument is that it tears the veil off the ambiguous concept of 'economic development' and reveals the radical difference between power-development, on the one hand, and welfare-development, on the other. If once the distinction is clearly grasped, we think it can be argued that, in the contemporary world-situation, the under-developed countries can reasonably plan for welfare and not power, as many politicians and economists seem to think. The sixty and odd nations that exist today in Europe, America, Asia, Oceania and Africa can hardly dream of entering the world competition for power. The central fact that many of these countries do not have the basic resources of coal, iron ore, oil and other such things stands inexorably in the way of even their dreaming of planning for power. But, surely, there is hardly any country which cannot plan for the welfare-development of its people.

Argument for Self-Sufficiency

The argument for self-sufficiency is equally invalid. There is hardly any country in the world which is self-sufficient in all the goods and services that it needs. Even countries like the U.S.A. and the U.S.S.R. with their vast and varied natural resources depend for many things on countries other than themselves. The United States, for example, depends almost entirely on imports for asbestos, industrial diamonds, manganese, mica, nickel, nitrate, platinum, quartz crystal and tin. The U.S.S.R., in its turn, depends almost entirely on other countries for industrial diamonds, mica, nickel, nitrate, quartz crystal,

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sulphur, tin, tungsten and vanadium.¹⁷ There are other things in whose case the supply is inadequate to meet domestic requirements and, thus, the countries have to depend upon others for import. Even among the communist countries, trade has developed and its pattern has not been significantly different from the general pattern of international trade that takes place between other countries. For example, countries like Poland, Rumania, Bulgaria, China, Mongolia, North Korea and Albania imported more machinery and equipment in 1953 than they exported. In fact, the last five countries had nothing to export in machinery and equipment and were only importers in this respect. On the other hand, East Germany, Czechoslovakia and Hungary were the chief exporters in this field. Surprisingly enough the U.S.S.R. imported more than it exported in machinery and equipment—its imports being between 700 and 750 million dollars, while its exports were only worth 200 million dollars.”¹⁸

It should be remembered in this connection that, in Marxist theory, a country which engages in trade with another country, that is either over-or-under-developed in relation to it, is either an exploiter or the exploited in that relationship. Maurice Dobb, for example, writes: “Super-profit in Marx’s sense can arise, it would seem, as much from free and unregulated exchange between countries of *different productivity* as from regulated ex-

¹⁷ W.S. Woytinsky and E.S. Woytinsky. Op. Cit. p. 333.

¹⁸ Trade in Machinery and Equipment of Communist Countries, 1953. The Eastern Economist Annual Number, 1955, p. 1035. Taken from E.C.E. Economic Survey, 1954.

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change or from foreign investment ; and *hence is a product in some measure of most international trade*.¹⁹ The essential point made by Mr. Dobb is that the trade should be *between countries of different productivity* and not whether it is unregulated or regulated, as he has granted that the super-profit in Marx’s sense would arise in both the cases. We leave it to the communist apologist to get out of the dilemma of regarding either East Germany, Czechoslovakia and Hungary as exploiters or Poland, Rumania, Bulgaria, China, Mongolia, North Korea and Albania or to give up the theory of international trade as exploitation between countries. Perhaps, the easiest way out of the dilemma would be to talk dialectics and say that when communist countries engage in trade, it is mutual help and when the capitalist countries do so, it is mutual exploitation. But what if a communist country engages in trade with a non-communist country ? We leave the puzzle to the dialectician and hope it would somehow get him out of the difficulty.

The argument for self-sufficiency is, then, as much mistaken as the arguments for defence and the so-called “rapid rate of economic development”. However, it can be put in a seemingly more plausible form. It may be suggested that many of the countries which we have mentioned as enjoying a higher *per capita* real income than countries which are industrialised or relatively more industrialised, have economies which are *complementary* in character. They depend for their prosperity on the demand of industrial countries for their raw materials and

¹⁹ Political Economy and Capitalism. p. 228. Italics ours.

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with any fluctuation in their demand, the welfare-levels of those countries would vary. This is merely a different version of the argument for self-sufficiency. If the production of raw materials is complementary to industries, so are industries to raw materials. In fact, the relation of "complementarity" is symmetrical in character. Countries like Great Britain and Belgium are as much dependent on the imports of raw materials and agricultural produce as countries like Australia, New Zealand or Denmark are on the export market for disposing of their output.²⁰ There are very few countries which have the raw material resources and the industrial and technical resources within their frontiers. And even if they have, they have to export their industrial products, for they have seldom the internal demand completely to take off internal production.

These are commonplaces of international trade and if we had to repeat them, it was only because of the mirage of self-sufficiency that so much haunts the planning politicians and economists of today.

Dangerous Confusion

The economic development of the under-developed economies is, thus, seriously menaced by some confusions within the thinking of the economists themselves. The situation becomes worse as the development in such countries is more or less to be initiated under State auspices. The State is always more concerned with power, though it ostensibly may talk more about the so-called 'real' welfare of the people. It comes natural to the economists and the

²⁰ Cf. Colin Clarke : *The Conditions of Economic Progress*, 1951. p. 362.

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politicians to talk about sacrifice as they are sure that it is not they who will have to do the "sacrifice".

It is, therefore, suggested that, at the theoretical level, the ambiguous term 'economic development' be broken into 'power-development', on the one hand and 'welfare-development', on the other. The two should be clearly distinguished from each other and the ends of planning in any country should be clearly defined in terms of either of them. At the applied level, it is suggested that the usual presupposition that there cannot be a rise in *per capita* real consumption without industrialisation should be seriously questioned. A distinction should also be made between types of industrialisation and the general assumption that priority-investment in heavy capital-goods industries is the *conditio sine qua non* of a rapid rate of development of consumer-welfare, should be given up in general and subjected to the closest possible scrutiny in each particular case where it is considered to be necessary. In fact, *it should always be remembered that the investment in heavy industries is directly correlated with the suffering and sacrifice of the people in an under-developed economy and that even a slight rise in the targets in basic industries involves a more than proportionate increase in the latter.* This may be taken as something of a negative law of welfare-development in the case of under-developed economies in general.

It, perhaps, need not be said that we are not contending against industrialisation of any sort to raise the *per capita* real welfare of the people. Nor are we even against the investment in heavy capital-goods industries in all cases.

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Our contention is merely for clarity and hardly will anyone assert that confusion in these matters may not have dire consequences for a country. The case of the Soviet Union is a grim warning to those who think that abstract confusions do not matter. Wrong ideas give wrong perspectives and wrong perspectives lead to wrong policies, till a people find themselves in a situation where they never wanted to be.

2

VU-QUOC-THUC

Since national planning has become the basis of economic policy in most countries in the world, many people naively believe that it would constitute the surest way to reach welfare : let the government draw out a five-year plan, let everyone execute loyally this plan and all the population will soon have more food, more clothes, more houses, more of everything which we are used to look upon as the necessary elements of modern comfort.

Does planning really bring us the economic welfare we are longing for? Is planning really a more efficient method than the old-fashioned economic freedom to improve rapidly our standard of living? It is a high merit of Dr. Daya Krishna to have studied that problem in the

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light of the most recent experiences of economic planning in the world.

In this comment, I try only to discuss Dr. Daya Krishna's suggestion about the necessity for planners in the under-developed countries to differentiate power-development and welfare-development in order to make the best compromise between these two alternative ends.

Too Much Simplification

My opinion is that Dr. Krishna's conception of welfare-development as opposed to power-development has too much simplified the problem of economic development. May be a careful analysis of the two fundamental notions of welfare and power would lead planners to a conclusion entirely different from that of Dr. Krishna.

Readers of Dr. Krishna's paper could believe that the degree of welfare in a country is measured by the *per capita* consumption of such "basic necessities of life" as bread, vegetables, meat, fish, milk, eggs, sugar, salt, fruits, fats, clothes, footwear, soap, living space etc...An increase in the gross national product when it is mainly composed of coal, steel, rubber, oil, tractors and other capital-goods is not necessarily a sign of increasing consumer-welfare in the light of this conception. And if we consider the experience of Soviet planning, there has been no parallelism between the development of heavy industries and the improvement of consumer-welfare. The logical conclusion of such analysis is that we must not consider industrialization as the first and necessary step to welfare-development. When the governments of planned countries emphasize the importance of industrialization, they obey,

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indeed, the natural tendency of all governments to maximize the nation's power.

What is Welfare ?

The first point to be examined is whether such a definition of welfare is a correct one.

Since Pigou and other classical economists have conceived of welfare as the sum of the utilities of different households, it appears that no statistics can express the importance and evolution of social welfare. The *per capita* consumption is perhaps a practical tool for official planning but it reflects only the most material aspect of social welfare. In Far-East and South-East-Asian countries where people deeply appreciate spiritual pleasures, such statistics obviously have no great meaning. Even in Western countries, material consumption is but a part of social welfare.

First of all, we must stress the *need of security* which is particularly strong in modern times. We need security to enjoy the modern material comfort. We need protection against all risks of life : illness, infirmity, unemployment... We need defence against all enemies inside and outside the country. That is the reason why everyone is ready to give a part of his income for an increase in the common security. This implies a lessening in the *per capita* consumption but in no way a lessening in the social welfare. Then, we cannot blame some governments when they emphasize the necessity of having more cannons and less butter. Particularly, in many under-developed countries, political security is the preliminary condition of all development. In these newly independent nations there

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could be no increasing of welfare without new investments, and no new investment without political stability.

Secondly, a large part of consumer's welfare is composed of *Public Utilities* that no statistics can adequately reflect. The fact of replacing old rickshaws by motor-cars, old muddy paths by asphalt roads, old straw-huts by modern buildings, old petroleum lighting by electricity, the fact of creating new towns, new railways, new bridges, new hospitals, new schools implies perhaps no increase in the *per capita* consumption ; but these facts are surely a sign of increase in social welfare. These public utilities are frequently the fruit of public investments financed by way of taxation, i.e. by reduction in the household consumption.

Then, it would be a mistake to see a failure of economic planning when there is no obvious increase in the *per capita* consumption. The case of U.S.S.R. is particularly a genuine one. Despite their dream to catch up as soon as possible with the U.S.A., the Russian communists had before all to defend their regime and their economic system against an eventual boycott by foreign countries. They had to produce by themselves all the capital goods necessary for the fulfilment of their plans. The level of consumption of the population has suffered unavoidably from this autarkist policy. The same observation would be justified in the case of underdeveloped countries when they concentrate their efforts upon public utilities and national defence.

Power Development

As to the notion of "power-development", it requires a lot of precise thinking.

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When a big country like the U.S.A. or the U.S.S.R. talks of power, we understand immediately that it aspires to world domination. It is indeed not so hard for these countries to produce more wheat, more steel, more coal, more tractors, more automobiles than any other country in the world. It is not so hard for them to influence adversely the international market by their intervention. They are typically the "dominant economies" as conceived by Prof. Francois Perroux of France, in his theory of economic domination. It would be a foolish thing for a small or middle-sized country to dream of economic power in that sense.

We must not, on the other hand, understand economic power as the possibility for a country to produce itself all the basic commodities it wants. Nowhere in the world can such self-sufficiency be realized.

Then, we may only attribute to economic power two practical meanings: (1) a high degree of economic independency; (2) an advanced state of economic development by comparison with other countries in the world.

Economic independence is naturally a matter of relativity. Every nation depends on foreign countries in some respects, but that dependence must not, in any case, endanger the life of the nation. The danger exists when, for instance, a high percentage of the national expenditure is financed by foreign aid; when all the manufactured goods are imported from abroad; when almost all the key-branches of the national economy are in the hands of foreigners; when without foreign capital and foreign technicians no important project of economic development

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can be realized. In such cases, it should be a rational policy to reduce by every means the extent of dependence of the nation.

Similar considerations led German economists, in the nineteenth century, to the conclusion that every nation must have the right to protect its internal market against the "invasion" of foreign products. Such protectionism is based upon the possibility for every nation to reach the top level state of economic growth, the "normal state", in which all sectors of the national activity—agriculture, industry, commerce—are equally developed. It is obvious that during the application of such protectionist measures, consumers' welfare must be neglected.

From a theoretical point of view, it could be easy to criticise such a conception of economic growth. We could, for instance, argue that the nation is too narrow a frame for economic development. We could set forth endlessly the virtue of specialized production and free international trade. Yet, to be realistic, we must recognize that nationalism is stronger than ever in the middle of the twentieth century. As long as small nations stand politically independent, they would not have the slightest blame upon them on account of their will to be self-sustaining!

Case of Underdeveloped Countries

Some words must be said about the particular case of underdeveloped countries. To accelerate the tempo of their development they generally concentrate their effort upon industries, and among industries, upon the heavy ones. Is this a wrong policy? To appreciate correctly such a choice requires a previous analysis of the causes

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of underdevelopment. That is a very complicated matter. The general belief is that the state of underdevelopment is caused by a lack of capital and technical skill ; because of this shortage, many natural resources are unexploited or wasted ; productivity of labour is too low and consequently the cost of production is too high. Without a close intervention of the authorities, no industry could be successful. Private initiative is very often discouraged by a number of bottlenecks such as the weakness of the internal market, the difficulty of buying raw materials, the high cost of transportation, the high rate of interest, and above all, the constant threat of foreign competition. To break up that vicious circle, the authorities have to create at first the basic conditions for a future industrial development. They must begin by producing coal, electricity, steel, copper at low cost. They must equip the country all over with railways, highways, bridges, canals, harbours. In fact, the creation of heavy industries must never be arbitrary : it depends mainly upon the existence of natural resources. Should we put the blame upon Communist China for producing too much coal when there are coal mines in her territory ? Should we criticise Egypt which plans to build up a gigantic dam in order to utilize the enormous power of the Nile River ? The day when China and Egypt have sufficient coal and electricity to meet their people's needs, we may be sure that the welfare of Chinese and Egyptians shall be substantially increased.

I think that the problem of welfare or power development is not a simple matter. To increase social welfare, it would be convenient to create at first heavy industries and develop public utilities. In any case, the *per capita*

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consumption must not be considered as an appropriate tool for measuring the degree of welfare of a country.

3

NURUL ISLAM

Dr. Daya Krishna's paper raises a few important issues relating to the nature, pattern and content of economic development.

The main burden of the paper seems to be that there is an undue and indiscriminate identification of economic development with industrialisation and that industrialisation is increasingly and heavily biased towards expansion of heavy industries, i.e. capital goods industry. The latter phenomenon is inspired by the example of U. S. S. R. where consumption level was held down by rigid controls imposed by an omnipotent state.

Role of Industrialisation

While there is much to be said against the policy of industrialisation at all costs, it seems desirable to spell out in clear language the precise role of industrialisation in development programming—a point to which the paper does not appear to pay enough attention. The process of economic development has been marked by an increase in

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productivity in agriculture so that with an increase in output per head in agriculture a progressively smaller proportion of population is engaged in providing food and raw materials.* In a densely populated country—as most of the underdeveloped economies of Asia and the Far East are—one of the main obstacles to increased productivity in agriculture is the pressure of a surplus population on land augmented annually by a high rate of increase. Industrial development in providing an outlet for a surplus population seems to be a *sine qua non* of reorganisation and improved efficiency in agriculture. In a scarcely populated country agricultural reorganisation by releasing labour force is a condition precedent to industrialisation. Their order of precedence and relative role would depend upon the nature of the economy concerned. There is mutual interdependence as one provides market for the other. As income grows there is a greater diversification of demand with a greater emphasis on demand for manufactured goods necessitating the development of industry.

Present Sacrifice

Within the field of industrialisation itself, determination of investment priorities between capital-goods and consumption-goods sector or industries involves a choice regarding the length of time interval or period of waiting during which the capital goods are being produced and at the end of which a larger flow of consumption goods,

* The countries with a higher standard of living do generally have a higher proportion of their working force employed in non-agricultural activities even though in certain cases a larger proportion of their national income originates in agriculture.

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manufactured with the help of an enlarged supply of capital goods, becomes available. It is a choice between an increased consumption, let us say, in the present plan period and a sacrifice of an increase in consumption in the present period in favour of a higher rate of growth of income in subsequent periods. In an open economy with international trade the period of waiting can be considerably shortened by importing capital goods from abroad instead of manufacturing them at home for utilization in the consumption goods sector.

It is likely, as Dr. Krishna tends to argue, that there is an inadequate understanding in the underdeveloped economies, encouraged partly by false propaganda or lack of reliable or readily available information, regarding the extent of sacrifice in terms of a static or a falling level of *per capita* consumption involved in an emphasis on the development of capital-goods industries in the early stages of development. Under democratic planning there is a clear-cut case under the circumstances to inform the public opinion about the nature and implications of alternative systems of priorities in terms of their effects on immediate and future standards of living. The suggested threat of an aggressive bias towards capital-goods industries in the ever enlarging public sector of a state, inherent in the latter's pursuit of power, can be counteracted by a democratic and effective parliament which takes the ultimate policy decision.

Reasons for Soviet Emphasis on Capital Goods

Since the Russian model of economic development has obviously a strong "demonstration effect", it may facilitate

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correct evaluation of investment priorities in underdeveloped economies if the circumstances surrounding their concentration on heavy industries and implications thereof are clearly spelled out and analysed. Soviet Russia, while concentrating on the heavy producers' goods industries, neglected investment in social overhead capital like housing and transportation etc. She inherited a substantial amount of overhead capital from the pre-Soviet period and overutilised and undermaintained them. Resources which otherwise would have gone to this sector were diverted to producers' goods industries. In present-day underdeveloped economies which lack any such inherited stocks, investment in social overheads claims first priority. If along with investment in social overheads, high priority is attached to capital-goods industries the sacrifice in the consumption sector would be disproportionately large. Since the basic level of consumption in these economies is very low among the labour force and since population is increasing, a certain amount of increase in consumption in the immediate future is an imperative necessity not only for maintaining the larger population but also for providing the needed incentive for increased productive efforts. The standard of living in Soviet Russia at the beginning of the five-year plans was higher than in the majority of the underdeveloped countries of today.* The rate of population growth was also slower. Moreover, Soviet plans were carried out in the face of a hostile world and defence potential was given very high priority. Again, she did not count on foreign loans or assistance or on

* Ellis and Buchanan: *Approaches to Economic Development*. Pp. 190-191. (New York, Twentieth Century Fund—1955.)

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international trade with the capitalist countries, but emphasized the attainment of self-sufficiency in the production of capital goods. The new entrants to the International Communist Order, however, have not all necessarily aimed at self-sufficiency in capital goods, since with the enlargement of the Communist World and mutual trade amongst them, the need for it has apparently diminished. It is also to be noted that even in Russia in the fifth and sixth five-year plans there has been a change in emphasis towards increased investment and production in agriculture. The problem of maintaining or increasing output in agriculture in the face of compulsory levies on collective farms and inadequate supply of consumption goods has been almost an intractable one throughout the successive plans. Deprivation in the consumption sector led to stress and strains as between the various sections and economic classes of the community reflected partly in recent political changes.

Argument for Self-sufficiency

In the majority of the underdeveloped countries many of the conditions which in Soviet Russia encouraged over-concentration on capital goods do not operate at all or not to the same extent. They rely to a large extent on foreign loans or aid and on international trade. In a few underdeveloped economies it is true that non-economic considerations like development of defence potential and attainment of self-sufficiency may tend to influence the determination of investment priorities. It is a timely reminder to the politicians and planners—more to the former than to the latter—that the impact of a defence budget is not only on the diminution of resources available for develop-

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ment but also a distortion of the optimum pattern of investment. However, the paper neglects to analyse certain facets of the argument for self-sufficiency which seem plausible. Industrialisation on the basis of dependence on overseas sources for the supply of capital equipment runs the risk of being jeopardised or thrown out of gear whenever there is an interruption in overseas supply as, for example, when foreign exchange receipts fall or when inflow of aid or loan funds slows down or stops. The exports of underdeveloped economies, consisting as they do mainly of primary products, are subject to violent fluctuations both in terms of price and volume. The flow of foreign capital also does not follow a stable pattern, but on the contrary, sometimes aggravates the fluctuations in export receipts. National and international measures designed to stabilise (a) the prices of primary products in international trade and (b) the flow of international loan or aid funds would go a long way towards the maintenance of an even rate of development.

Stages in Capital Goods Production

The paper at one point appears to suggest that the relative emphasis on the development of capital goods industry, once they are started, continues unabated and postponement of an increase in consumption is prolonged indefinitely. This is possible only if capital goods are used to produce more capital goods indefinitely. There is nothing technically inherent in this process and at some point the larger supply of capital goods would have or need to be utilised in the consumption-goods sector, where from the demand for capital goods ultimately emanates.

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It is to be noted that there are various stages in the production of heavy capital goods, plant and equipment. It is possible to start at the earliest stage building up the essential tools and materials with which to make machines. The earlier the stage in the processes of production of capital goods that an economy starts, a longer time interval would elapse before the final output of capital goods ready to be utilised in the consumption goods sector becomes available. The fact in the U.S.S.R. was that she started at the very base or earliest possible stage and built up at home all the stages for the production of capital goods rather than relying at any stage on the importation from abroad of intermediate goods for the production of that stage. Self-sufficiency at all stages was her motto. Underdeveloped economies relying in any case partly on external sources for financing of economic development need not aim at the same end. Many of them import plant and equipment from abroad to build factories for making machines. Moreover, there are some special reasons why deprivation in the consumption sector in Russia was greater or continued for a longer period than was expected. In the first place, she did not succeed in the early years of experimentation with economic planning in foreseeing all the inter-industry relations and interdependence and the implications in terms of ancillary and supporting enterprises of the establishment, let us say, of an iron and steel industry. She concentrated on the obvious deficiencies in the capital-goods sector and the less obvious inter-relations were revealed only as the programme got under way. Subsequently larger resources had to be diverted away from the consumption sector to make those capital-goods industries—which were already started—workable and

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worthwhile.* The overall shortage of technically trained personnel and skilled workers was more keenly felt than was anticipated and larger share of this shortage fell on the consumption sector which was given a lower order of priority. As time went on the initial neglect of social overhead capital had also to be redressed and a larger investment in them was imperative to make whatever industrialisation that took place worthwhile. It has to be recognised that capital-goods industries tend to commit an economy on a long-run basis to a policy of industrialisation. The capacity thus created necessitates subsequent development of other industries for its full utilisation. The establishment of a number of consumers' goods industries, on the other hand, has no such implications and does not technically commit an economy to a process of progressive industrialisation.

Compulsions in Underdeveloped Countries

The extent of relative emphasis on capital goods industries vis-a-vis the consumption industries would depend upon the circumstances of each country. Even the communist countries in Eastern Europe are not all following exactly the same pattern as Soviet Russia. However, China seems to follow in the footsteps of Russia, in an overconcentration on heavy capital goods. Since she has Russian sources to draw upon, she may not as yet build from the earliest stages in the capital-goods sector. She had neglected social services, but could not neglect social

* Ellis and Buchanan : Approach to Economic Development : 1955. P. 209.

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overhead capital.* Moreover, in an underdeveloped economy an enlarged supply of capital goods would be mainly utilised in setting up new consumption-goods industries or additional units in the pre-existing industries in the consumption sector. In view of abundant labour force they are not intended to substitute for labour in the existing units of production. This necessitates a large supply of wage goods—including food—to maintain the larger labour force employed in industries. The creation of a surplus in agriculture and consumption-goods sector is consequently a *sine qua non* for the effective utilisation of a large supply of goods in an industrialising economy. Increased efficiency in the consumption-goods sectors and agriculture should be the main plank of policy in such a context.

In the end it may be added that relative emphasis on capital-goods industries vis-a-vis the consumer-goods industries would vary from one plan period to another. The development of each sector has to keep in step with each other and with agricultural development. This is illustrated by the fifth and sixth five-year plans of Soviet Russia. The first five-year plan in India laid more stress on agriculture and consumption goods sector whereas in the second plan there is relatively greater stress on the capital-goods sector. It is questionable, however, to what extent the larger emphasis on capital-goods industries has been geared to the creation of a surplus through increased efficiency in consumption sector and agriculture and how far it has been adjusted to the adoption of labour intensive

* W. Malenbaum : India and China—Development Contrasts. Journal of Political Economy, February, 1956.

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techniques and emphasis on small-scale industries in the consumption-goods sector. In Pakistan, however, the main emphasis is on the consumption-goods industries in the first five-year plan. Inadequate attention paid so far to development of agriculture has, however, started to tell upon the economy demonstrating once more how reorganisation of production and creation of a surplus in agriculture is a condition precedent to the programme of industrialisation in a densely populated country like Pakistan.

4

THE AUTHOR REPLIES

Prof. Vu-Quoc-Thuc has raised some fundamental objections to the very concepts of welfare and power developments which, if correct, would militate against the central contention of my paper. He has concluded that "in any case, the *per capita* consumption must not be considered as an appropriate tool for measuring the degree of welfare of a country". This, if true, would destroy the very foundation on which the whole paper is built up.

Prof. Thuc's reasons for this basic objection derive from his contention that "The *per capita* consumption... reflects only the most material aspect of social welfare."

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He stresses the *need of security, public utilities and spiritual pleasure* which obviously form an important part of social welfare but cannot be measured by the *per capita* consumption of such "basic necessities of life" as bread, vegetables, clothes, footwear, living space etc. etc. It is obvious that Prof. Thuc has thrown in spiritual pleasure just by the way; what he is seriously concerned with is 'public utilities and national defence'.

Welfare not Homogeneous

It may readily be conceded that the *per capita* consumption of basic consumer goods reflects "only the most material aspect of social welfare". But is it not just that with which economics is supposed to be concerned? There is, of course, an esoteric sense in which *any* utilisation of scarce resources (whatever be the resources—whether time or interest or attention) that have alternative uses raises the problem of optimum employment depending upon the ends (whatever be the ends, including spiritual realization) which one has chosen. In this sense, obviously, there is an economic aspect to the activity of a saint who sits and meditates and tries to realize God in some lonely forest or on some inaccessible mountain-top. But surely when 'planning' is resorted to or 'economic development' talked about or wished for, one is not thinking of such things. The trouble with Prof. Thuc is that he is equating 'economic welfare' with 'social welfare' and goes even so far as to suggest its possible identity with 'spiritual pleasure' or what may be termed as 'spiritual welfare'. The attempt emanates from treating 'welfare' as a homogeneous category, just as previously 'utility' or 'value' was treated as a homogeneous category by most

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economists. Our plea is just this : that these categories be not treated as homogeneous as it leads to confusion both at the level of policy and at the level of thinking.

The Question of Security

Something more, I think, needs to be said about the 'need of security' and *public utilities* about which Prof. Thuc has so eloquently written. The need for security is roughly twofold—one, the need for law and order, the security against illness, accident, death and unemployment ; the second, against external aggression from other countries. The two, I suggest, should be sharply distinguished and though Prof. Thuc seems to have done so in his paper, he has, I am afraid, not quite seen the implications of the distinction. One wonders, for example, how the need for "protection against all risks of life, illness, infirmity, unemployment" militates against the acceptance of *per capita* consumption as an appropriate tool for measuring the degree of material welfare enjoyed by the people of a country. Normally, a reasonable amount of *per capita* consumption of basic consumer goods cannot be realized in conditions where law and order are absent or where there is great unemployment and, as for protection against risks of life, illness and infirmity, it certainly is a necessary precondition of their realization.

Defence Arguments

But security in the military sense is a totally different thing. In this sense, a country can always feel insecure if there are countries other than itself which are equally strong or if the combined strength of all the other countries is equal to or greater than its own. I hoped I had made

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the speciousness of the argument for defence fairly obvious in my paper. But it seems from the papers of Prof. Thuc and Prof. Islam that defence arguments continue to be the usual excuse for a sacrifice of the *per capita* consumption-standard of the people. 'Security' in this sense, is an ever-receding ideal which, as everybody knows, even the great powers of today cannot enjoy. In any case, there can be little quarrel about the distinction between an investment geared to purposes of defence and one geared to an augmentation of *per capita* consumption of basic consumer goods which is all that I was arguing for in my paper. It may, however, be added that when Prof. Thuc writes : "we cannot blame some governments when they emphasize the necessity of having more cannons and less butter", he is too innocently assuming that the cannons are required for defending the white lamb rather than for arming the wicked wolf. Surely, the Nazi leaders who gave this slogan were not sacrificing butter for the defence of their country. Some ultra-intelligent man may, of course, discover another need, 'the need for conquest', and justify such investment under its name. Not merely this, he may suggest that such an investment shall ultimately result in an increase in consumer-welfare as the success of the conquest will ensure colonial exploitation of the people conquered. But, obviously, when people talk of 'economic development' or 'planning' they are not talking of such things. "Political security is", certainly, "the preliminary condition of all development", but the 'political security' that is *necessary* is the minimum maintenance of internal law and order and not the creation of a military might that can withstand any possible attack on the country.

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If Prof. Thuc understood the concept of 'welfare-development' in an extended socio-political sense, he has narrowed the concept of 'power-development' to mean something just economic. But I think it was fairly clear that the term 'power-development' was being used in the politico-military sense throughout the paper. In any case, it may be made clear once again that while the term 'welfare' is being used strictly in the limited, material economic sense of the term the term 'power' is being used primarily in the military sense of the term.

* * *

Dr. Islam's comments take the form of a brief delineation of the process of economic development with reference to the 'role of industrialisation in development programming' and of the peculiar features of the 'Russian model' which led to a particular pattern of investment in that country. He goes on to argue that "in the majority of the underdeveloped countries many of the conditions which in Soviet Russia encouraged over-concentration on capital goods do not operate at all or not to the same extent". He, however, concedes that "non-economic considerations like development of defence potential and attainment of self-sufficiency may tend to influence the determination of investment priorities"—a point that was the central contention of my paper.

Arguments for Autarky

The case for autarky has been argued to a certain extent both by Dr. Islam and Prof. Thuc. The dependence on overseas sources for capital-equipment and technical personnel, the fluctuation in the demand of primary products, the variability in the inflow of aid or loan funds and

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all the other usual arguments have been advanced by them in support of their contention. However, the usual conclusion from these arguments is to build a case for industrialisation and that too, an industrialisation of the heavy capital-goods variety. I have not yet found it argued by anybody that a country like Great Britain should invest more in agriculture or rather in the production of those basic consumer goods on which it has to depend on other countries. Of course, the thinkers of the Gandhian School have argued for the consumer self-sufficiency at the village level but, then, who has taken them seriously? The reason for this lies in the fact that autarky is sought generally in terms of what Prof. Thuc has called 'nationalism' i.e. consideration of power rather than welfare. When Prof. Thuc asks: "Should we put the blame upon Communist China for producing too much coal when there are coal mines in her territory?" or "Should we criticise Egypt which plans to build up a gigantic dam in order to utilise the enormous power of the Nile River?" it is only a rhetorical flourish. Production of *too much* coal has meaning only if coal can be exported for things that the country needs. But this obviously involves as much dependence as having too little coal and importing it from outside in exchange for what one produces. And, surely, a country can be blamed if it produces *too much* coal and *too little* bread for its people, assuming, of course, that it cannot exchange its *too much* of coal for bread and thus equalise the two. As for Egypt's building of the Aswan dam, everybody knows that the dam is no more considered necessary, while a steel mill has already gone into operation.

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The trouble with arguments for autarky are that they are generally made in the context of war or a possible war. It is not, however, suspected that the very attempt at autarky might lead to warlike relations between countries. The role of German attempts at autarky in leading to German militarism has, I suspect, been little studied. Conversely, the explanation of Soviet attempts at autarky in terms of the hostile character of the external world forgets that the Soviet Government, from its very inception, was ideologically committed to and practically engaged in the revolutionary overthrow of governments outside itself. Autarky and war are closely related to each other: the former leads to the latter as a tendency, the latter to the former as a necessity.

The Long-run Argument

An increase in agricultural productivity has been regarded as the first prerequisite for economic development by Prof. Islam in his paper. He emphasises more the productivity per head of population actively engaged in agriculture than an absolute increase in production available in terms of *per capita* consumption of the people. The latter, I think, is more important for the countries of Asia which certainly have no scarcity of labour that needs to be taken off from land and employed elsewhere. In other words, what we need is an increase in productivity per acre and not in productivity per man-hour in these countries. But this is required *only* if we are thinking of economic development in terms of what we have chosen to call 'welfare-development'. Otherwise, as everybody knows, the problem is not so much of production as of exportable surpluses from the peasantry so that

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workers in the factories may be set to produce what, after a few decades, is *expected* to return in the form of consumer goods to them once again. And even if after a few decades this does not happen, it does not matter, for it is bound to happen *some time or other*. Keynes' trenchant comment on the 'long-run argument' seems to have been completely forgotten by the economists who argue this way.

Public Utilities

Prof. Thuc has done well in emphasizing the public-utilities component of consumer welfare. I think it can reasonably be taken into account in compiling *per capita* consumption of 'basic goods and services'. However, 'public utilities' is a blanket term covering all sorts of services—direct, indirect and some so remote that their connection with direct consumption is more a matter of belief than knowledge. Further, different components of 'public utilities' will have different orders of priorities as the investment is oriented to power or welfare.

The whole discussion centres round the question *whether relevant distinctions need be drawn within the generalised concept of economic development?* If once this necessity is admitted, the rest is a matter of detail. I argued for this necessity in my paper and nothing that Dr. Islam or Prof. Thuc has said seems to me to militate against it.

OTHER ESSAYS

PLANNING AND DEMOCRATIC FREEDOM

The economic development of an underdeveloped economy generally requires enterprise under different auspices than that of the private entrepreneur. The exact locus and distribution of the required entrepreneurial function would vary with the relative state of the underdeveloped economy vis-a-vis the developed economy which it seeks to imitate. The difficulties connected with the problems of saving, investment and the creation of market-demand inevitably result in the necessity of what is generally known as "Planning".

It is equally accepted that planning, particularly under state auspices, leads to a tendency towards curtailment of democratic liberties. The term "democratic liberties" is consciously meant to be contrasted with and distinguished from the so-called "real liberties" of the so-called real "people's governments". They cluster around such things as freedom of speech, freedom of the press, internal auto-

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nomy of various learning and culture centres, opposition parties, independent judiciary, *habeas corpus*, free elections, different employment authorities etc. etc.

Such a tendency can hardly be of any serious concern to those persons, parties or countries that have little value for the democratic liberties. Still less can it matter for those who are ideologically committed to a different set of values or who are convinced that this set of values was merely a natural resultant of certain historical conditions and would pass away with their passage.

The problem, however, can be fairly serious for those who cherish the democratic values and feel the necessity of some sort of developmental planning at the same time. Many of the recently freed countries of Asia and Africa are, undoubtedly, in this challenging, though difficult, situation and the success or failure of their experiment may have significant repercussions in other countries of Asian and African continents.

The democratic freedom is supposed to be guaranteed by the constitution and safeguarded by the ever-watchful eye of the judiciary in these countries. Some of them like India can, in truth, be proud of the fact that they have not liquidated a single person for political or economic reasons since the achievement of political independence or the launching of their economic plans as against the millions that have met that fate in Soviet Russia, Communist China and the East European countries.

Responsibility of Leaders

It is, however, well-known to any student of politics,

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sociology or law that democratic freedoms are not guaranteed by constitutions or safeguarded by judiciaries, parliaments or newspaper-editors, but by a living tradition nurtured by centuries of practice and thought which makes the legislator, the executive official, and the general public feel almost intuitively when a wrong step is taken. Most of these countries are infant democracies and thus there lies a very heavy responsibility on their political, intellectual and cultural leaders to see that a healthy tradition is laid and that no tendencies are encouraged which may interfere with its sturdy growth. The role of the ruling party in power is crucial in this respect, though no little responsibility lies on the leaders of the opposition and the élite of the intellectual and the press-world also. Unfortunately, in an underdeveloped country the democratic entrepreneur has also to be the state.

The Planning Commissions, the Panels of Economists, the Statistical Drafters, the Cabinets, the Parliaments, and the hundred-and-one other groups are *only* interested in the targets of production and employment, the raising of investment funds, the division between private and public sector, between capital and consumer goods, between large-scale and cottage industries etc. etc. These are matters of immediate interest, discussion and dispute, for the problems with which they concern are pressing and hard. The freedom-effects of these measures are hardly anybody's interest or business. In fact, it is presumed by everybody that freedom is already assured and that only economic ends need to be achieved. The concrete necessities of the moment overwhelm human consciousness and it is natural that men be concerned with what strikes their immediate eye.

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Delicate Balancing

But planning means to see below the surface, to look into the future and to provide for possible dangers. And democratic freedoms are not something to be achieved for once and all but to be preserved and enlarged by a continuous vigilance that wanders not nor lessens a bit. It is imperative, therefore, that the preservation and enlargement of the area of democratic liberties be a part of the frame-work of planning itself. At least, there should be a conscious awareness of the areas where specific measures of planning curtail the existing democratic liberties and an open discussion whether alternative methods cannot be found that shall achieve the same ends. If the liberties are to be sacrificed to economic exigencies, it should be done with full consciousness and public participation rather than covertly and in an unconscious drifting manner. Equally, it may be necessary to give up some types of ostensible economic ends for the sake of democratic liberties. The two values are equally important for those who cherish them and in case of any specific conflict between the two, there is required a delicate balancing that shall decide as to which of the two is to be sacrificed and in what measure.

This can only be possible if there is detailed, unimpeachable information as to where and how the democratic liberties in a country are being strengthened or endangered by the various measures that the government undertakes. Men of undoubted integrity, high quality and committed to democratic values can, with the help of a research staff, easily perform this function. People all over the country can voluntarily write to them and with proper weightage,

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sifting and verification they can incorporate the information in their quarterly or half-yearly reports. They can give the country the danger-signal when measures have gone too far in a certain direction and provide the government, which itself is committed to democratic values, data that will help it to come to a decision on broad matters of general policy.

Needed Special Institutes

It is, therefore, suggested that the Planning Commissions or the governments should provide finances for the setting up of institutes whose chief task will be to study the freedom-effects of the various measures or policies that the governments undertake and to provide information as to how, where and when the democratic liberties, which the country, its government and its people so much cherish, are endangered. Their reports should be, in every case, made public so that they may arouse the widest possible discussion in the countries concerned. The institutes should be completely independent and autonomous. The persons to be appointed should enjoy the conditions of pay and security of service equivalent to those enjoyed by the High Court Judges in these countries.

The conditions, as everybody knows, are a matter of detail and can be worked out by experts more competent than ourselves. What is required, however, is the intense realisation on the part of the people and their governments of the imperative need of the function that these institutes are supposed to fulfil.

It will be an unfortunate and even suspicious circumstance if the governments do not accept the need or the

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necessity of such institutes. In case this happens, it is the duty of public spirited persons who have any love for democracy to create such institutions themselves. Perhaps the easiest way, if we fail to find even such persons, would be to suggest it as a subject for Ph. D. research in History, Politics and Sociology in different universities. This would involve least cost, but we do not think it should be necessary to resort to it as an alternative to other measures but rather as a supplement to them. It will be a bad day for democracy when this remains the only alternative and then, perhaps, even this would be ineffective.

Democracy Also Indivisible

Many have emphasised, particularly in the new States of Asia and Africa, that the area of peace should be preserved and enlarged and that in the world of today peace is indivisible. It should, however, be equally remembered that the area of democratic liberties needs as constant a vigilance for its preservation and enlargement as the area of peace and that like peace and prosperity it, too, is indivisible in the world today. It may not be politic for some of the newly emergent democracies to talk about the great danger that the deprivation of democratic liberties in the totalitarian countries holds to the area of freedom and liberty all over the world. But it will certainly be suicidal if the same indifference is shown to the preservation and enlargement of the area of democratic liberties within their own countries, for unless continuous care is exercised in this respect there can be little hope of the survival of democracy in these countries,

We suggest, therefore, the creation of institutions

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which will serve, in terms of modern communication theory, as negative feed-backs in the political life of these countries.

2

PLANNING AND THE SOCIO-CULTURAL PERSPECTIVE

The necessity of planning for the economic development of an underdeveloped country is almost completely accepted by all thinking persons these days. The difference in opinion arises, however, with respect to the pattern that planning should take. The overwhelming prestige enjoyed by the Soviet Union as the first pioneer in the field of total planning in modern times gives a distorted perspective to thinking about 'planning' in other countries of the world. It places an almost exclusive emphasis on one particular pattern and even tends to suggest that there are no alternative patterns possible at all. The limitation on imagination by the actuality of that which has happened is well known, but it is the task of the intelligentsia to overcome the limitation and to explore the alternative possibilities and make a comparative study of them in terms of the social and economic costs that are incurred and the social and economic welfare that is achieved.

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Neglect of Socio-Cultural Consequences

However, even thinkers who have not been blind to the alternative possibilities in the pattern of planning have tended to assume that the relevant effects in terms of which they can be compared are only economic in character. The orientation of planning to the achievement of material ends blinds these thinkers to the as, or even more, important socio-cultural consequences resulting from the introduction of such large-scale causative factors as planning necessarily involves. The neglect of such effects is facilitated by the general lack of any socio-cultural perspective among economists and politicians who are predominantly the persons among whom the plan-framers originate. The other factor making for such neglect is the overwhelming importance attached to material values implicit in the very concept of economic planning itself. The planning mentality conceives of the achievement of material ends as self-justifying and as that which justifies everything else. This, as is well-known, can spell disaster in the lives of individuals. That it can equally do so in the lives of nations tends to be forgotten by most persons who would not fail to see it in the case of individuals. The Soviet obsession 'to catch up with America and to surpass it' is perhaps the clearest and the most tragic example of such a mentality.

The idea of society as a machine geared to the satisfaction of material needs only is, then, a blasphemy entertained mostly by those who, either by their culture or training, treat them not merely as basic but also as the highest in their scale of values. Economic planning, it should be remembered, does not occur in a socio-

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cultural vacuum. A socio-cultural tradition going back to thousands of years embodying the age-long search of man in different directions pervades the so-called underdeveloped countries which are underdeveloped only in the technical comparative sense of the term. The economic sociologists who have paid any attention to the values embodied in the traditions and institutions of a society have seen them only in terms of their facilitating or hindering the economic development of that society. As economists, perhaps, they could have done nothing else, since the focus of their attention could only be the economic values with which they were concerned. But, as sociologists, this could only be regarded as a blunder on their part since it involves the assumption that the only valid purpose for the socio-cultural institutions is to be an efficient instrument for the achievement of material welfare.

The pattern of economic development as facilitating or retarding the socio-cultural values embodied in the traditions and institutions of a society has seldom been studied by the economists or the sociologists. The influence of technological changes has, of course, been studied by a number of eminent sociologists but a study of the socio-cultural effects of alternate patterns of economic development has been sadly missing from the intellectual horizon. The primary reason for this neglect seems to be the belief that perhaps there are no alternative patterns of planning and that, even if there were, it is the socio-cultural values that must adjust to the exigencies of economic planning rather than economic planning that should adjust to the socio-cultural values when the two

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be in conflict. That sociologists, as a class, could implicitly accept either of the beliefs reveals a distressing lack of critical consciousness about the presuppositions that even the scientists so unconsciously accept from the atmosphere around them.

Non-economists can Help

It is only among the cultural anthropologists and the non-specialist savants in literature and thought that one finds even an awareness of such a problem. But unless a detailed technical study is undertaken, the awareness cannot inform the pattern of planning and, thus, make itself effective. What is needed, in fact, is to pass from building econometric models to building socio-metric models in terms of which we may calculate not merely the detailed economic effects of a particular piece of action but of its socio-cultural effects as well.

There can, however, be no excuse for the utter neglect of the socio-cultural perspective by the planning boards as the cultural anthropologists and the sociologists have repeatedly demonstrated that society is not merely an instrument for the realisation of economic ends. The assumption that people prefer an increase in their material welfare to everything else has so often been demonstrated to be false that its acceptance as an axiom by the planning authorities in any country can only cause surprise to those who have any information on the matter. The lack of detailed knowledge can hardly be given as an excuse, for there is a large amount of scattered knowledge in the different social sciences which can prove useful in assessing alternative courses of action. The psychologists,

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for example, are not merely useful in selecting candidates for the various defence services, but they may also be expected to bring their relevant insight to bear upon the various aspects that a particular planning-pattern may reveal. Similarly the cultural anthropologists should not be invited only to deal with problems arising with respect to the primitive tribes in a country. They may have something relevant to say concerning the formulation or execution of projects that affect vast masses of people. The sociologist, with his vast study of institutions and their impact upon the lives of the people and his intimate knowledge of the basic differences between rural and urban sociology, could certainly be of great help in assessing the effects of the rapid urbanisation that a fast rate of economic development necessarily involves. The philosopher, the artist and the saint could, in their turns, provide that larger perspective and the sense for abiding values without which human societies lose the vision that gives them significance in the perspective of history.

The socio-cultural tradition is, of course, not the ultimate arbiter of all that can or ought to be done. There will always be elements which have to be given up because they are a heritage from the past which is mostly evil in its nature. There will be others which are outmoded and which require a new expression in the context of modern times. New valuational horizons may emerge and a society may seek their realisation. But what is to be discarded and what is to be sought for has to be self-consciously discussed and debated. Mere talk about economic objectives without a consciousness of their relation to the values men seek for may have some

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justification in the case of those who profess only economics, but can have hardly any in the case of statesmen and thinkers who are supposed to lead and show the light to the people.

Truism ?

It would be a misunderstanding to think that we are urging for a total planning of all the socio-cultural aspects of a people's life. We are not even arguing for a uniform realisation of some one particular value in a society. The acceptance of democracy is basically the acceptance of pluralism in a society. Our purpose merely is to draw attention to the fact that economic policies do have socio-cultural effects and that the exercise of a particular type of economic policy may be incompatible with certain values that we might wish to cherish and perpetuate and grow. This is almost a truism but when truisms are neglected, it needs no excuse to emphasize and repeat them once more. It is always, for example, a panel of economists which is invited to go through the plan frames and give its opinion about them. But when has a panel of sociologists, psychologists, cultural anthropologists and the social philosophers been invited to scrutinise the draft-frames in the accumulated knowledge in these sciences ? One can find a pertinent discussion of the economic aspects of planning in various learned, semi-learned and popular journals. But has there ever been a serious study of the possible socio-cultural effects that Planning might have ? The difficulty with truisms is that one usually neglects them and, when pointed out, one can always reply that they are just truisms. We suggest that the neglect be remedied before the people

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find themselves in a situation where they can only resign themselves to what has happened.*

3

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The development of an underdeveloped economy is almost another name for the process of industrialisation in the minds of most people. And as an underdeveloped economy is primarily agricultural in character, the mechanisation of agriculture is considered to be the clearest sign of such a development. Steel mills, on the one end and tractors, on the other, symbolise for the economist, the politician and the educated lay man, the 'economic development' which is dreamt of by everybody.

Enthusiasm for Tractors

The communist and the non-communist, the expert and the laity seem to be agreed on their common enthusiasm for the tractor. It is perhaps only the antiquated Gandhians who have some doubts about it, but when have

*A very good discussion of some of the points made in this paper will be found in a little pamphlet HUMAN VALUES AND TECHNOLOGICAL CHANGE by Raj Krishna, A.B. Sarva Seva Sangha Prakashan, April 1958.

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they understood the complicated processes of economic development which only the experts can comprehend? And is it not a fact that countries with large exportable agricultural surpluses have also the most mechanised agriculture?

Tractor, however, is merely a symbol of mechanised agriculture. It includes other things such as threshers, mowers, reapers, binders and what are called the combine-harvesters. The main function of all these, it should be remembered, is to replace human and animal labour and not to increase the productivity of land. In countries where land is in plenty in relation to the people more land can be brought under cultivation and the total productivity can thus be increased. The soil and topography of the land must also be of such a nature as to allow the large-scale use of such implements. Generally the farms should be large in area and level in their topography to allow the successful use of tractors and combine-harvesters on them.

In U.S. and U.S.S.R.

The United States had all these conditions—abundant land, scarce labour, large and level farms—combined with a rapid development of steel and oil industries in the first decades of the twentieth century. It was in that country, therefore, that large-scale mechanisation of agriculture first started as a natural response in about the twenties of this century. From about 25,000 tractors in 1915, the figure rose to 246,000 in 1920 and to 920,000 in 1930. Since then the number of tractors in the United States has gone on rising till in 1950 it was 3,825,000.

The Soviet Union, where there was no labour shortage

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and not much production of oil or steel, felt compelled to mechanise its agriculture from the very beginning. It built its first tractor plant in 1923 and imported a large number of tractors from the U.S.A. till 1932 when, with American technical assistance, it built three new tractor plants in Stalingrad, Kharkov and Cheliabinsk. It should be remembered that till 1929 Russia's steel production was only about 5 million tons and the production of petroleum about 85 million barrels. Since then, with the phenomenal rise in steel production, the production of tractors and combine-harvesters has been continuously rising, though interrupted during the War.

Valuational Ethos of the Planner

The mechanisation of agriculture was demanded by no immanent factors in the agricultural situation in the Soviet Union. It was demanded more by ideological factors than necessities inherent in the situation. The aspiration to overtake and surpass the U.S.A. has been a continuous motivation of the Soviet economy from the very beginning. And thus, if the U.S. agriculture was mechanised, so should be the Soviet's whether there was any internal necessity or not. The love of mechanisation for mechanisation's sake is, however, deeper ingrained in the valuational ethos of the planner, particularly of the communist variety, than the envious aspiration would seem to indicate. The deepest, however, seems to be the fact that the 'economic development' in an underdeveloped economy being essentially an *imitation* of that which had naturally happened in the countries of the West, it comes naturally to be thought that if we start at the other end with heavy industrialisation and mechanisation of agriculture, we

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would achieve the same production and consumption levels as are enjoyed by those countries.

Such an imitative impulse in the face of the most heavy odds can, on the other hand, be only persisted in because the process of economic development is undertaken under State auspices. The private entrepreneur cannot, for long, persist in an economically harmful enterprise. He has to meet competition from other entrepreneurs and has neither the coercive capacity of the state nor the resources of the public exchequer. It was because of this reason that tractors did not make much headway in the European countries before World War II. The investment and operating costs were high, while the size of European farms was small and topography unsuitable for their use. The most industrialised countries like the U.K., France, Belgium, Germany and Czechoslovakia had only 55,000, 30,000, 50,000, 60,000 and 6,000 tractors respectively in 1930. These figures should be compared with 1,447,000 of the U.S.A. and 483,500 of the U.S.S.R. for the same year. It is only after the war, and in some countries during the war, that a spectacular increase in the use of tractors has taken place.

No Increased Productivity

The use of so many tractors has not meant any increase in the productivity of land. The U.S.A., for example, had an annual yield of 25.6 bushels per acre in corn, 12.3 in wheat and 26.5 in oats during the period 1866-75. In the period 1926-35 when it had a large number of tractors (1,048,000 in 1935, to be exact), its per acre yields were 23.9, 13.8 and 27.7 respectively. It is only after

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1940 that the per acre yields have risen all round in the United States mainly because of a greater use of better seeds, better fertilisers and modern agricultural technology rather than more mechanisation in general. The Soviet Union's per acre yields are no better. In fact, they are even worse than the United States'. They are just about 10 bushels of wheat per acre for 1930-34 and 15 bushels for 1935-39. These figures should be compared with the productivity figures for such completely non-mechanised countries as India, China, Iran, Bulgaria or Poland. During the period 1935-39 their wheat yield per acre was 10.7, 14.9, 17.2, 22.8, and 18.0 bushels respectively. Even the productivity per man on farms in the U.S.S.R., with the second largest number of tractors in the world, is about four and a half times less than that in the U.S.A.

Conditions for Mechanisation

Mechanisation of agriculture is, thus, indicated only for those countries where land is abundant and where there is a shortage of labour, i.e. where the land-man ratio is very high. If there is plenty of land to colonise, or if the land per farmer is very large, or if there is an acute shortage of labour for industrial undertakings, then there can be some meaning in mechanising the agriculture of a country. But if, on the other hand, there is a large amount of disguised unemployment in the agricultural sector, little new land to bring under the plough, the land per farmer pitifully small, there can hardly be any meaning in introducing mechanisation. If in spite of such conditions mechanisation is sought to be introduced, it can only be because of confused

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ideas about its results or due to a love of mechanisation for its own sake or both.

Further, it is always possible for the state planners to forget that tractors and combine-harvesters represent costs rather than income in relation to agricultural production as in the computation of total national income, they count as income rather than costs. The production, maintenance and repair costs, however, are real costs and should be counted as such. A farmer would never treat them otherwise and, in fact, could not do so even if he liked. The alternative would be sheer bankruptcy and he would be quick to realise it, even if he had made such a sophisticated mistake. The state, on the other hand, can afford to ignore such a perspective and continue to believe that tractors are a sign of "economic development", whether they are needed or not. And, unfortunately, it will be able to find a sufficient number of economists to sustain it in that belief. The costs of steel, petroleum and of engineering and repairing skills are prohibitive and uneconomical in an underdeveloped country with little surplus land and large number of people. These scarce resources should, therefore, be used for more profitable purposes than the mechanisation of agriculture in these countries.

Situation in Asia

Unfortunately, most of the underdeveloped countries, particularly those of Asia, are in such a situation. Their population is large and the area of arable land per farmer is small. Further, the rate of population growth is generally very high in these countries. With the intro-

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duction of maternity clinics, child-welfare centres and general health measures, it is expected to go still higher, at least in the immediate future. The prospect of economic betterment would, perhaps, affect in the same direction in the short run. Thus, it is not the labour-displacing devices that are required for welfare-development in these countries, but devices that increase productivity with a better and more extensive and intensive use of labour that is already abundant. It is a well-known commonplace of economic thinking these days that under conditions of disguised unemployment, the surplus labour can at least theoretically, be taken off the agricultural sector and used for development projects. As Prof. Nurske has argued, the disguised unemployment is, in fact, a disguised saving which is not recognised as such. But, if this is true and we have already a large amount of surplus labour whose proportion is expected to increase with the increase in population, there is no necessity of creating a further surplus through the mechanisation of agriculture at such huge costs.

A disguised advantage of mechanised agriculture is that it releases land for food-crops which is used as feed-crops for the upkeep of draught animals. The disguised disadvantage, however, is that the amount of available manure in farms considerably decreases and makes the application of commercial plant food more necessary than before. It should be remembered, in this connection, that "As far as can be ascertained from prolonged observation, the effect of farmyard manure is more even and lasting, while the reaction of the soil to commercial fertilizers is very strong at first but gradually falls

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off".* Further, the cattle population remains no more an integral part of agriculture and the farmer becomes much more dependent on the industrial sector than he has ever been before. The psycho-socio-cultural changes that are bound to occur with the mechanisation of agriculture should also be weighed in this connection.

Ideological Confusions

On the whole, it seems that mechanisation of agriculture is not indicated, except in some marginal cases, for the underdeveloped countries of Asia and Africa. The heavy capital costs that it involves are prohibitive in the extreme and the same amount of investment can, in most cases, be more profitably made elsewhere. The raising of productivity per acre, rather than per man-hour, should be the aim in these countries where the land-man ratio is low. As Mr. Swarup has written: "A farmer's income is a function of several factors. The chief of them are: (1) the productivity of land; (2) the amount of land at his disposal and (3) the cost of production".† The amount of land per farmer can hardly be significantly increased in these countries. Therefore, the only two remaining ways to increase the income of the farmer, who constitutes the major segment of the population in these countries, are to increase the productivity

*World, Population and Production, W. S. Woytinsky and E. S. Woytinsky. 1953. P. 527. Most of the figures in this article are taken from this book.

†Communism and Peasantry. R. Swarup. P. 137. The whole book is a powerful exposé of the fallacy of mechanised agriculture in the context of Asian conditions.

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of the land on the one hand and to lower the costs of production, on the other. Or, at least, an increase in the costs of production must be proportionately less than the increase in productivity of the land. This is elementary economics and would never be violated if the ownership is vested in the individual farmer. But under conditions of state ownership and collectivised agriculture such a violation could easily take place under the confused ideology which equates 'mechanisation' with 'economic development' in general. In fact, such a violation has already taken place in the Soviet Union where after 38 years of continuous attempt at economic betterment, a prime minister (Malenkov) had to resign ostensibly because of insufficient production in the agricultural sector. If the example is not heeded, the same mistake may be repeated elsewhere, for the ideological confusions are certainly not confined to the communist countries alone.

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MR. LEWIS LOOKS AT ECONOMIC GROWTH*

The central fact about economic growth, defined as the growth of output per head of population, lies,

* The Theory of Economic Growth, W. Arthur Lewis, George Allen & Unwin Ltd. P. 1955. 30s. net.

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according to Prof. Lewis, in an increase in investment from 4 or 5 per cent to 12 or 15 per cent of the national income per annum. It is only such a stepping up of the rate of investment that can increase the national income by 3 per cent per annum, assuming the capital-income ratio to lie between 3 to 1 and 4 to 1. The growth of output per head of population, however, is also a function of the rate at which these heads are growing. In many of the countries of Asia, this rate is between 2 and 3 per cent and, thus, such an increase in investment is necessary if these countries are to maintain even their already very low standards.

Lack of Capitalist Attitudes

The increase in the rate of investment means a corresponding increase in the rate of savings. It is usually considered difficult for a poor country to achieve such rates of saving because of its poverty. But, according to Mr. Lewis, the argument is generally gratuitous as there is always a substantial minority which, in these countries, receives a large share of the national income which it could use for productive investment instead of conspicuous consumption. In Puerto Rico or Ceylon, for example, the top 10 per cent of income-receivers squander 40 per cent or so of the national income living luxuriously on rents. The trouble, therefore, is the attitude of these rent-receivers who treat it not as capital for investment but as revenue for consumption. In short, it is the lack of the capitalist attitudes, whether in the case of the private entrepreneurs or the governments of these countries, which hampers the process of economic growth in these countries.

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Propensity to Productive Investment

The stepping up of the rate of productive saving depends on an increase in the share of national income of those economic groups in an economy which have the highest propensities to productive investment. The landlords, the peasants, the labourers and the salaried middle classes do not share this propensity to any very large extent. It should be noted in this connection that savings have no very direct relation to the income that a particular person enjoys. It is more a function of the economic group to which one belongs rather than to the income that one receives. It is only the entrepreneurial capitalist class or the governments undertaking the capitalist function that remain as the groups which can do the most productive saving in an economy. It is, therefore, the share of profits in the national income that has to increase if we are to have economic growth in an underdeveloped economy.

The Role of the State

The problem of the state vs. the private entrepreneur in the field of economic development takes on a new aspect if we analyse the proportion of capital investment between various sectors of the economy. The gross fixed investment in advanced industrial countries is typically apportioned between the various sectors as follows :

Housing	about 25 per cent
Public Works & Utilities	„ 35 „ „
Manufacturing & Agriculture	„ 30 „ „
Other commerce	„ 10 „ „
	<hr/>
	100 per cent

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The importance of public investment in relation to private investment will depend, therefore, on the fact whether the state assumes responsibility for providing public works and utilities on the one hand and housing on the other. It should be remembered that the less developed countries need, in fact, a higher percentage of investment in both these fields as they require both an established framework of utilities and an housing programme for the increasing urbanisation that inevitably accompanies economic development. The investment, therefore, in these fields, would have to be more than 60 per cent in at least the first decades of development in these countries.

It is generally agreed that public works and utilities such as roads, docks, transport, water, electricity, school, hospitals, government buildings etc. should be under public ownership whether at the municipal, state or central level. The responsibility for low-cost housing for labourers and the salaried employees of the state and central governments is also more and more accepted as a public responsibility. It, therefore, seems inevitable that a large proportion of investment has to be made in the public sector, whether anyone likes it or not.

Inflation as Instrument of Economic Growth

The state, then, has to be the crucial investor and saver in the economic growth of underdeveloped countries. It can also create new investment out of deficit financing. In such a case, however, the government has to see that the inflationary process, which is the inevitable result of deficit financing, redistributes income in favour of the classes that save. Inflation, in fact, has such a tendency. It

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raises profits relatively to other incomes and stimulates investment in fixed capital formation. A little inflation, thus, increases profits and speeds up the rate of capital formation. Inflation, however, is merely a substitute for taxation and the choice between them is mostly political in character. The effectivity of inflation for economic development would, however, depend on the relevant answers to the following questions :

- (1) Who will get the inflationary profits, and what will they do with them ; spend them on consumption, speculate in commodities, create new fixed capital, hoard them or buy government bonds ?
- (2) Can the output of consumer goods be expanded rapidly, or will the first stage of inflation be too long ?
- (3) Is it the kind of economy where prices of essential goods can be controlled easily, without great growth of black markets ?
- (4) Is there a strong trade union movement, which will turn a demand-inflation into a cost-inflation ?
- (5) Can the foreign exchange situation be safeguarded ?
- (6) Is there a high marginal rate of taxation mopping up fifty per cent of money income as fast as it is generated by inflation ?

These six questions posed by Mr. Lewis, in the context of considering inflation as an instrument of economic growth, are of special interest to India as it has embarked on a fairly high rate of deficit financing in its second Five-

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Year Plan. The answers to most of them are in the negative and, thus, it becomes imperative that a positive answer be sought for the second question which, in fact, is the key to the whole problem.

Adequate Differential Rewards

The increase in the share of profits in the national income, which is the inevitable accompaniment of economic development, engenders economic inequality, at least in the first instance. The governments committed to economic equality quickly realise that they cannot simultaneously have both equality and economic development. The case of the U.S.S.R. is the classic one in this connection. It is difficult to combine equality with incentives and with a high level of saving. Even if the State takes over completely the saving function, "the process of economic growth demands that there shall be adequate differentials for skill, for education, for risk bearing and for willingness to take responsibility". Whether it be the super-capitalistic economy of the U.S.A. or the super-socialistic economy of the U.S.S.R., the differential rewards as incentives for work remain the key motivations of the economy.

The pioneering role of the state, particularly in backward countries where the quantity, quality and the risk-bearing propensities of the private entrepreneurs are deficient, is recognised by Mr. Lewis. But he is quick to take notice of the fact that "governments may retard economic growth by showing excessive zeal for regulating the economy". Unless a large amount of initiative is left to the private people, the economy is bound to suffer.

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If, for example, "more initiative had been allowed in the U.S.S.R., the quality of the services received by consumers would have been much better for the same resources and agricultural output would have been much larger". The contrast with Japan which achieved the same high level of capital formation without the Soviet level of inflation is illuminating in this respect.

In fact, the Soviet method has proved the most inefficient for raising the productivity in agricultural field. In spite of collectivisation, mechanisation and state farms, the yields per acre are miserably low and have not shown any significant increase over the Czarist times. The backward countries can increase their agricultural productivity by one per cent per annum if they choose to do so. Japan, in fact, raised its productivity per acre between 1880 and 1920 at a cumulative annual rate of 1.3 per cent per annum. But such an increase would require, at least, an expenditure of one per cent of national income (not of government expenditure) per annum on agricultural and allied research. Mr. Lewis not merely highlights the necessity for the allocation of such research funds, but shows that it would be an extremely productive investment, since it is almost equivalent to return of fifty per cent per annum, assuming that the agricultural sector accounts for fifty per cent of the national income.

Three Crucial Factors

Mr. Lewis exhaustively surveys the psychological, institutional, technological, demographical, political and economic factors governing the process of economic

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growth. However, he does not develop any unified theory and has a feeling that such a theory in the present circumstances cannot, perhaps, be developed at all. In spite of this distrust in a generalised theory, he singles out three crucial factors which are relevant to economic growth. These are (1) the will to economise ; (2) the increase in technological knowledge ; and (3) the accumulation of capital. Anything that favours any of these conditions will automatically function as a factor favouring economic growth. Leaving aside the will to economise which is the fundamental factor in economic development, the problem of technological knowledge is relatively less important for underdeveloped countries as they have mostly to take and adapt it from countries that have already discovered it. As for the third factor, the crucial point is the capital-output ratio which, if we are to believe Colin Clark's articles in the *Eastern Economist*, Mr. Lewis has put rather too high. In fact, as a very large part of investment goes into the building industries and as the relative costs in this field are rather low in underdeveloped countries, the capital-output ratio may be lower than Mr. Lewis has postulated. However, the repeated warning of Mr. Lewis against the bottleneck arising from a shortage of skills in the building industries does not seem to have been substantiated by India's experience in the first Five-Year Plan.

Limitations of Definition

The limitations of Mr. Lewis' book are the limitations of his definition. He is only concerned with growth as the increase of output per head of population, even if it is

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accompanied by the mass of the people becoming poorer or with an actual decline in the consumption levels of the people. The tacit assumption is that no relevant differences are made to the will to economise, the problem of saving, the capital-output ratio, the types of skills and the knowledge required in the two different cases where the ends of economic activity are so radically different. He is, of course, in good company in making such an assumption. Hardly any economist thinks otherwise. But we suspect that the assumption needs to be proved rather than assumed. Sociologically, the confusion is disastrous, particularly in the case of a person like Mr. Lewis who cares equally for the wider perspective of philosophy and the practical need that makes men ask precisely what to do next. Both the philosophical perspective and the practical need, about which he has written so well in his *Preface*, demanded that a distinction should have been drawn on the very first page and the investigation carried on in its terms. That Mr. Lewis has not done so shows the tight hold that traditional categories can exercise on even the finest minds of our times.

INVESTMENT, INFLATION AND EMPLOYMENT

The problem of employment is a crucial one in the economic development of those countries which are overpopulated in relation to their resources, assessed in the context of the current techniques of production and productive organisation prevalent in those societies. Such is, in fact, the situation of the most of the countries in Asia which face an unemployment problem of the greatest magnitude in the background of a system of production which is extremely primitive in character. This, it should be noted, is unlike the unemployment problem in the Western countries which face it in the background of a vast productive apparatus that happens to be idle for some reasons.

Inflation Barrier

One of the imperatives of planning in such countries has, therefore, inevitably to be concerned with this problem of employment. An almost absolute limit to the pro-

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cess of economic development is, however, set by what may be called the Inflation Barrier. The Barrier, of course, is a function of many factors and varies over the time-period. But still it can never be ignored with impunity specially by countries which are, and aspire to remain, democratic in character.

The pattern of investment varies with the pattern of economic development that a country wishes to follow for itself. It may be geared to the ends of power or the ends of welfare, though the two may coincide for some moments in the case of some countries. The variation in the pattern, however, is not supposed to affect inflation. It is only the absolute amount of investment that is supposed to have the relevant consequence. There are, of course, other factors such as the capital-output ratio and the time-schedules of investment fruition that are also relevant for assessing the inflationary effects of an investment policy. Still, in the short run, it is the absolute amount alone that is supposed to matter.

Pattern of Investment

It is, however, not merely the amount of investment but also the pattern that seems to matter even in the short run. And, in a certain sense, the type of investment that may promise most employment in the short run may result in setting up inflationary tendencies of the utmost intensity. The wider disbursement of funds to a larger number of people creates obviously a greater demand pressure on available consumer goods and services than a more concentrated disbursement to a lesser number of people. In case

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a larger amount of investment flows into the hands of a limited number of people, it facilitates the anti-inflationary process of autonomous saving flowing back into the investment-process and thus creating the cycle once again. The demand pressures in the latter case are generated more on the luxury goods side which perhaps can be met more easily than the increased demand for basic consumer goods generated by an employment-oriented pattern of investment. The relative ease would, of course, depend on the pattern of luxury-consumption prevalent in a particular society. If, for example, the pattern is determined in terms of a feudal style of living, it should at least be theoretically possible of easier attainment than if it consists largely of prestige-goods industrially manufactured outside the country, even though it be a moot question whether a feudal style of living can go with the capitalistic entrepreneurial spirit without which economic development can hardly take place.

Further, even in cases where the pattern of luxury-consumption creates pressures on the foreign exchange position, it can be checked and controlled far more easily than the demand-pressures generated on the basic consumer-goods front. And, in any case, a strain on the foreign exchange position is bound to take place if the pattern of investment takes a capital-investment form as, in most cases, the required technical skill and equipment will have to be imported from abroad. Whether the luxury-imports induced by the investment process add significantly to the strain shall remain an undecided question. It can perhaps be settled only for specific cases; a generalised solution, I suspect, may not be possible in the matter.

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Employment-oriented Pattern

The employment-oriented pattern of investment may have one anti-inflationary consequence in the sense that the time-period of investment-fruition is relatively shorter and that the employees are set on producing the things that they as a whole have more or less directly to consume. The cottage-industries and handicrafts which give large employment to people produce almost directly the goods that the newly employed would need to consume. This, however, meets a serious limitation in the fact that in countries living on the margins of subsistence the increased demand-pressure would, in the first stages, be felt primarily on the food-front. The increase in agricultural production, however, can neither be so quick nor easy as in the case of other consumer-products in general. If this be coupled with the fact of rising population, as is the case with most countries of Asia, the difficulty becomes still more acute. The anti-inflationary force of investment in consumer-goods produced by cottage industries and handicrafts is, thus, considerably reduced. The primary barrier in the realm of agricultural productivity does not let this force function as it normally would have done if the limiting factor had been absent.

This, it should be clear, is not a plea for an investment-pattern unoriented to employment-ends. It merely seeks to focus attention on the incompatible effect of a pattern of investment with regard to its consequences in terms of employment and inflation in a particular economy. The break-through can perhaps be made by raising agricultural yields all through—a problem that in any

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case, is central to all economic development geared to the ends of welfare rather than power in a particular society. Unless a concentrated effort is made to break through the foundational barrier, a country may industrialise itself in terms of power and be reckoned among the polities of the world but lose in terms of economic welfare and political freedom for which alone perhaps it set itself on the path to economic development.

ACKNOWLEDGEMENT

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The title essay *Planning, Power and Welfare* and comments of Prof. Vu Quoc Thuc and Dr. Nurul Islam are original contributions.